

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

OCTOBER 2003

HIGHLIGHTS

Summary

Maryland's economy continues its expansion. The pace of the growth slowed somewhat in August, due largely to a reduction in jobs in the government sector. In sharp contrast, the U.S. economy is still suffering the aftereffects of the 2001 recession. While the state's economy registered a gain of 4,300 jobs (despite the decline in government jobs), the nation's economy shed 485,000 jobs between August 2002 and August 2003. During the past year, Maryland cut its losses in the manufacturing and information sectors, while adding jobs in construction, retail trade, education and health services, leisure and hospitality and other services.

Unemployment Rate

In the context of current data, it appears that July's increase in Maryland's unemployment rate was an aberration. The state's unemployment rate fell to 4.1 percent in August, and it remains nearly two percentage points below the national average. While the rate (not seasonally adjusted) fell in Maryland over the year, the U.S. rate rose slightly. Seasonally adjusted data show a similar picture. Maryland's unemployment rate, seasonally adjusted, fell to 4.2 percent. The national rate stood at 6.1 percent in August.

Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Aug 2003	4.1	6.0	4.2	6.1
Jul 2003	4.6	6.3	4.6	6.2
Aug 2002	4.3	5.7	4.3	5.8

Source: U.S. Bureau of Labor Statistics

Maryland's Unemployment Rate Falls

In August, Maryland's unemployment rate fell to 4.1 percent, from 4.6 in July and 4.3 percent a year ago. The seasonally adjusted rate fell as well.

Unemployment Insurance Claims Decline

Initial claims for unemployment insurance fell in Maryland, while the labor force and employment grew.

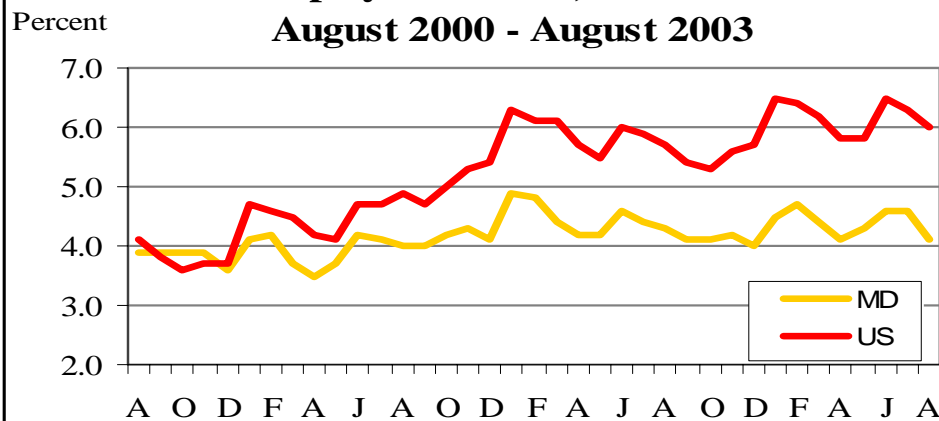
Stock Market Makes a Comeback

The Maryland stock index jumped 28 percent over the year, while the U.S. stock index registered a 10 percent increase.

State's Economy Expands

Jobs grew 0.2 percent in Maryland, led by the services sector, in spite of a decline in government jobs.

**Unemployment Rate, MD vs. U.S.
August 2000 - August 2003**



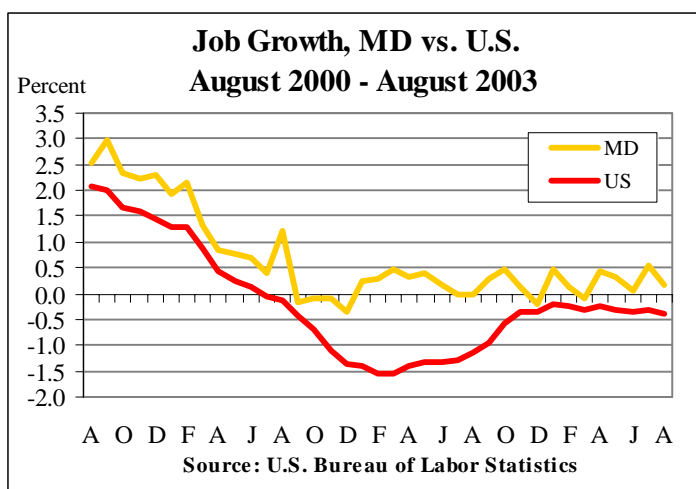
Source: Maryland Dept. of Labor, Licensing & Regulation
and U.S. Bureau of Labor Statistics

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Jobs and Sectors

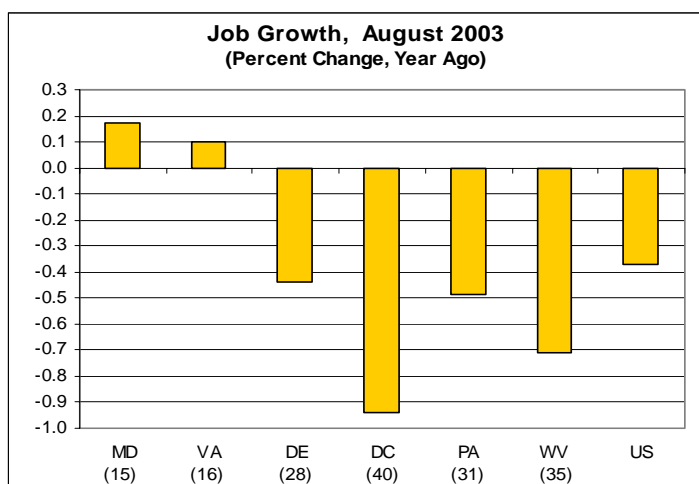
Jobs

Maryland's job growth remains positive, although the rate of growth remains erratic. By comparison, the nation is still mired in what is being called a post-recession "job-loss recovery." Nevertheless, the U.S. economy lost 485,000 jobs (data not seasonally adjusted) between August 2002 and August 2003 — more than the number of job losses reported in September's *Economic Pulse*.



Job Growth Ranking

Maryland's job growth rate of 0.2 percent caused the state to rank 15th in job growth in the nation during August. Job growth rates and ranking for Maryland's neighboring states in August 2003 were: Virginia, 0.1 percent (16th); Delaware, -0.4 percent (28th); Pennsylvania, -0.5 percent (31st); West Virginia, -0.7 percent (35th); and the District of Columbia, -0.9 percent (40th). Maryland continues to buck the national trend.



Job Index Improves

One way to compare job growth performance rates is to convert job levels into an index with March 2001 assigned a value of 100. A comparison of recession and post-recession job index rates for Maryland and the U.S. shows a sharp contrast, with the state's employment index showing a small but continuous upward trend, while the national index shows a slight downward trend. A comparison of actual year-over-year job growth rates tells a similar story.

Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

Month	MD	U.S.
Aug-02	0.0	-1.2
Sep-02	0.3	-1.0
Oct-02	0.5	-0.6
Nov-02	0.1	-0.3
Dec-02	-0.2	-0.4
Jan-03	0.5	-0.2
Feb-03	0.1	-0.2
Mar-03	-0.1	-0.3
Apr-03	0.4	-0.2
May-03	0.3	-0.3
Jun-03	0.1	-0.4
Jul-03	0.5	-0.3
Aug-03	0.2	-0.4

Sectoral job growth continued in Maryland, with some sectors cutting losses while others posted strong growth. The major exception in August was the government sector, which shed 8,600 jobs. Local government jobs accounted for 4,800 of the loss, due to a decrease in education positions. Also, professional and business services suffered a small reversal in August after posting a gain in July. In construction, July job losses turned to positive growth in August. The manufacturing sector cut its job loss rate, which now is half the national rate. The decline in the information sector also slowed. Job gains were significant in leisure and hospitality, retail trade, education and health services and other services.

Trade and Retail

Retail trade, including net job growth in retail trade, remains strong in Maryland — a reflection of strong consumer spending, income growth and modest job growth. Within retail

(continued on page 3)

Jobs and Sectors (continued from page 2)

trade, job growth remains strong at automobile dealerships, building material and garden supply stores, health and personal care stores, clothing and accessory stores and department stores.

Housing

Maryland's housing sector continues to be a major driver of the state's economy. Existing home sales jumped 11 percent in August, following relatively strong gains during the first seven months of the year. Given healthy gains in income and population, modest growth in jobs and affordable mortgage interest rates, expect both new and existing home sales to remain strong during the near term.

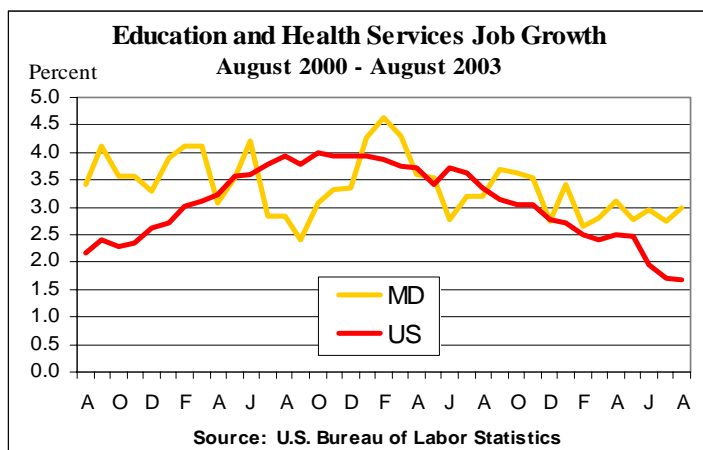
Travel and Tourism

Maryland's leisure and hospitality sector, a major new driver of the economy, added 2,500 net new jobs from August 2002 to August 2003. This sector had a job growth rate of 1.1 percent during the past year, slightly ahead of the national growth rate of 0.9 percent. Accommodation and food services added 3,800 net new jobs, up 2.0 percent. The increase was due largely to the addition of 4,900 jobs in food services and drinking places. This strong gain more than offset the employment drop in the accommodation sector.

Tax receipts from amusement and admissions were down a little less than 1 percent, but revenue from the hotel/motel sales tax was up by 2 percent.

Other Industries

Education services added 2,900 jobs during the past year — a growth of 5.2 percent. Healthcare and social assistance added 6,900 net new jobs from August 2002 to August 2003 — an increase of 2.5 percent. Within this sector, hospitals added 3,400 jobs, an increase of 3.8 percent.



Administrative and waste management services saw an increase of 2.3 percent, adding 3,500 net new jobs during the past year. Within this group, administrative and support services added 3,100 jobs — up 2.1 percent.

The government sector declined by 2 percent over the year. Job losses occurred at all levels — federal, state and local. The local government sector lost jobs during the past year due to lower counts in local education jobs.

Manufacturing

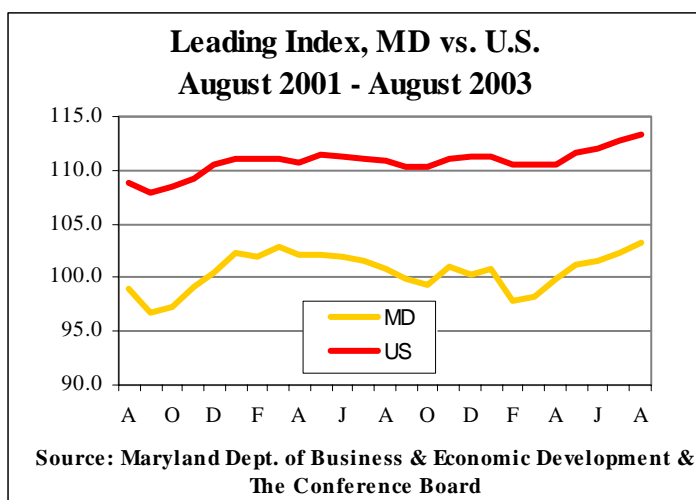
Maryland's manufacturing sector continues to strengthen, with the rate of job losses declining sharply over the course of the year. Despite the overall weaknesses in this sector — in Maryland and nationally — some industries showed strength. Growth industries include food manufacturing, which added 100 net new jobs, and machinery manufacturing, which remained steady. Manufacturing workweek hours remained unchanged between July and August, but fell slightly over the year. The state's manufacturing sector recovery is somewhat stronger than the nation's as a whole.

Percent Change in Jobs August 2002 - August 2003

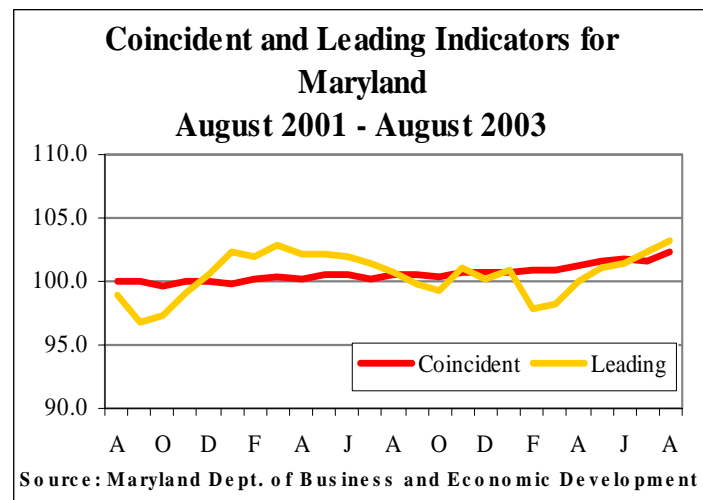
	<u>MD</u>	<u>U.S.</u>
Construction, Mining, Natural Resources	0.2	1.3
Manufacturing	-2.2	-4.3
Trade, Transportation, Utilities	0.5	-1.1
Information	-4.4	-4.1
Financial Activities	-0.1	1.9
Professional and Business Services	-0.1	0.2
Education and Health Services	3.0	1.7
Leisure and Hospitality	1.1	0.9
Other Services	3.5	-0.5
Government	-2.0	-0.3
Total	0.2	-0.4

Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* provides an economic outlook for the coming six to nine months. The index increased to 103.2 in August from 102.3 in the previous month. The leading index was also up by 2.4 percent from a year ago. Only three out of the seven Maryland components improved in August, including cargo shipment through Baltimore/Washington International Airport, initial claims for unemployment insurance and the stock index. At the national level, all three of the components contributed to a positive affect, including the leading index, the spread between short-term and long-term interest rates and the consumer confidence index. In August, the U.S. leading index was up by 0.4 percent from the previous month and the indicator was also up 2.2 percent from a year ago. The increases in the indexes continue to provide positive signs about future economic activity at the state and national level.



The *coincident index* provides a reading on the state of current economic conditions in Maryland and is used as a tool to help track the performance of the economy. The revised coincident index increased by 0.7 percent from the previous month, up to 102.3 in August — more than offsetting the decline in the July. In addition, the index was up 1.8 percent from a year ago. The increase from a year ago continues to grow at a stronger pace compared to the first three months of this year, when the growth from a year ago tended to slow. The Maryland economy continues to perform relatively better than the U.S. economy. In August, the U.S. coincident indicator was unchanged from the previous month and was up only 0.1 percent from the same period a year ago. The U.S. index has been relatively flat for most of this year and the increase from a year ago has slowed — a trend that has been in place since the end of last year.



Labor Force

Maryland's labor force and employment by place of residence grew during the past year, as it did in the nation as a whole. Relatively stronger employment growth (by place of residence) lowered Maryland's unemployment rate, but the reverse was true for the national economy. In Maryland, initial claims for unemployment insurance (UI) fell 8.6 percent in August. Nationally, UI claims fell only 1.9 percent over the year. During the August 2002-August 2003 period, the state's Temporary Cash Assistance (TCA) caseload rose marginally.

Labor Market Trends, August 2003 (Percent Change, August 2002 - August 2003)

	MD	U.S.
Growth of Civilian Labor Force	0.5	1.0
Employment by Place of Residence	0.6	0.6
Temporary Cash Assistance – Caseload	0.8	–
Change in Initial UI Claims	-8.6	-1.9
Help-wanted Counts	-13.8	–
Unemployment Rate (current month, %)	4.1	6.0

FOCUS: Economic Activity Improving

The recent *Beige Book* report, a Federal Reserve publication describing economic activity in 12 regions of the nation, supports various data that point to a strengthening economy. The report indicated that consumer spending was generally stronger, helped in part by recent federal tax cuts. The majority of the districts reported a pickup in manufacturing activity, although employment in the sector remained generally weak. Residential real estate markets remained robust in virtually all the districts while commercial real estate markets, in comparison, were characterized as being weak. Tourism and travel activity was reported as being mixed but improving. Overall labor market conditions remain generally weak.

Economic activity in Maryland — as well as the District of Columbia, North Carolina, South Carolina, Virginia and most of West Virginia — is included in the region covered by the Federal Reserve Bank of Richmond, whose report indicated that growth in the region was advancing at a modest pace despite the disruption of Hurricane Isabel. Retail sales for the region were reported to have recovered quickly after the hurricane. The District's manufacturing sector did not fare well as shipments, new orders, capacity utilization and employment declined in September. Tourism activity was mixed

as activity along the coast was partly offset by increased activity at inland locations as tourists relocated.

Although the national economy is showing signs of a sustained recovery, improvements in the job market are less visible. Analysts point to robust productivity gains as one factor that has allowed firms to maintain or increase output without expanding staff. In addition, geopolitical and economic uncertainties arising from corporate scandals, the war in Iraq, and other factors are also likely to have restrained hiring in the past. But firms are also reorganizing their operations to lower expenses, including relocating positions to overseas countries with lower labor costs. The restructuring of the economy has also made it more difficult for displaced workers to move to new jobs, because it requires individuals to move to a new industry, a new location or acquire new skills.

The improving national economy, however, is expected to contribute to a pickup in employment. At the same time, analysts indicate that the employment data may not be fully capturing the creation of jobs at small businesses. Small businesses are usually the first to begin hiring as the economy begins to recover.

Other Economic Indicators

- Maryland's coincident index shows that economic activity is improving, while the leading index suggests that growth is likely to continue in the near term.
- Maryland ranked 15th in the nation in job growth during August, down from a revised ranking of 13th in July.
- The state's job growth rate, at 0.2 percent, was positive and stronger than the nation's.
- Maryland added 4,300 net new jobs from August 2002 to August 2003. This is in sharp contrast with the loss of 485,000 jobs nationally.
- In August 2003, the state registered an unemployment rate of 4.1 percent, one of the lowest in the nation. This compares with a U.S. unemployment rate of 6.0 percent.
- The state's unemployment rate fell over the year, while the national unemployment rate rose from 5.7 to 6.0 percent.
- Initial claims for unemployment insurance fell 8.6 percent in Maryland and fell 1.9 percent in the U.S.
- The *Baltimore Sun*'s help-wanted counts declined by 13.8 percent over the year.
- Average weekly hours in Maryland's manufacturing establishments fell in August, while earnings remained nearly unchanged. In the U.S., weekly manufacturing hours fell while earnings were up.
- The Maryland stock index jumped 28 percent from August 2002 to August 2003. The national index was up 10 percent.
- Existing home sales rose a strong 11 percent during the past year, but permits for new residential units fell.
- New auto registrations rose 1.5 percent in August after surging 35 percent in July. U.S. auto sales fell 4.2 percent.
- Passenger volume at BWI was up 4.4 percent from a year ago. Cargo volume, however, declined by nearly 20 percent.

Selected Monthly Economic Indicators

	Maryland					U.S.				
			Percent Change		Percent Change			Percent Change		Percent Change
	Aug 2003	Jul 2003	From Last Month	Aug 2002	From Last Year	Aug 2003	Jul 2003	From Last Month	Aug 2002	From Last Year
Selected Indicators										
Labor Market										
Labor Force (U.S. in Thousands)	2,942,981	2,994,830	-1.7	2,928,519	0.5	146,967	147,822	-0.6	145,565	1.0
Employment (U.S. in Thousands)	2,820,857	2,855,968	-1.2	2,803,109	0.6	138,137	138,503	-0.3	137,295	0.6
Unemployment Rate	4.1	4.6	-10.9	4.3	-4.7	6.0	6.3	-4.8	5.7	5.3
Sun Help-Wanted Counts, Baltimore MSA	14,593	16,955	-13.9	16,922	-13.8					
Initial Claims for Unemployment Insurance	17,165	23,041	-25.5	18,787	-8.6	1,370,366	1,950,488	-29.7	1,396,488	-1.9
TCA Caseload	29,095	29,237	-0.5	28,854	0.8					
TCA Cases Closed	2,968	2,992	-0.8	3,178	-6.6					
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,463.9	2,464.3	0.0	2,459.6	0.2	129,606	129,601	0.0	130,091	-0.4
Construction, Mining & Natural Resources	172.0	171.1	0.5	171.7	0.2	7,710	7,679	0.4	7,612	1.3
Manufacturing	153.1	152.8	0.2	156.5	-2.2	14,681	14,643	0.3	15,336	-4.3
Trade, Transportation, Utilities	461.3	461.0	0.1	458.9	0.5	25,188	25,177	0.0	25,460	-1.1
Information	50.4	50.4	0.0	52.7	-4.4	3,280	3,294	-0.4	3,420	-4.1
Financial Activities	151.6	152.1	-0.3	151.8	-0.1	8,041	8,053	-0.1	7,892	1.9
Professional & Business Services	365.9	365.5	0.1	366.2	-0.1	16,239	16,161	0.5	16,206	0.2
Education & Health Services	336.8	336.9	0.0	327.0	3.0	16,179	16,201	-0.1	15,912	1.7
Leisure & Hospitality	235.4	236.1	-0.3	232.9	1.1	12,634	12,656	-0.2	12,516	0.9
Other Services	120.0	121.0	-0.8	115.9	3.5	5,349	5,376	-0.5	5,374	-0.5
Government	417.4	417.4	0.0	426.0	-2.0	20,305	20,361	-0.3	20,363	-0.3
Average Weekly Earnings (\$)	613.85	611.09	0.5	613.45	0.1	633.95	621.32	2.0	621.18	2.1
Average Weekly Hours	39.4	39.4	0.0	40.2	-2.0	40.2	39.6	1.5	40.6	-1.0
Business and Consumer Markets										
BWI Cargo (Metric Tons)	17,659	13,998	26.2	22,003	-19.7					
BWI Passengers (Millions)	1.94	1.99	-2.5	1.86	4.4					
Electric Meters Installed, Commercial ¹	161	150	7.3	137	17.5					
Electric Meters Installed, Residential ¹	842	874	-3.7	836	0.7					
Electricity Sales, Commercial (Millions of kWh) ¹	1.54	1.52	1.4	1.67	-7.6					
Electricity Sales, Residential (Millions of kWh) ¹	1.03	0.72	43.0	1.17	-11.5					
Existing Home Sales (U.S. in Thousands)	8,922	9,115	-2.1	8,042	10.9	636	620	2.6	540	17.8
New Auto Registration (U.S. seasonally adjusted)	39,556	41,088	-3.7	38,965	1.5	1,362,023	1,372,798	-0.8	1,421,487	-4.2
New Residential Permits Authorized	2,159	2,180	-1.0	2,224	-2.9	165,014	165,662	-0.4	150,447	9.7
Indexes										
Leading Index	103.2	102.3	0.8	100.8	2.4	113.3	112.8	0.4	110.9	2.2
Help-Wanted Index	65.1	75.7	-13.9	75.5	-13.8	37	38	-2.6	41	-9.8
CPI	N/A	116.8	N/A	N/A	N/A	184.6	183.9	0.4	180.7	2.2
Stock Index	236.2	229.7	2.8	184.0	28.4	1,008.0	990.3	1.8	916.1	10.0
Tourism										
Hotel/ Motel Occupancy Rate (%)	74.1	75.1	-1.3	73.9	0.3					
State Welcome Center Visitors	250,737	251,029	-0.1	257,271	-2.5					
Amusement & Admission Tax (Millions of Dollars)	5.52	5.63	-2.0	5.57	-0.8					
Hotel /Motel Sales Tax (Millions of Dollars)	6.51	6.33	2.8	6.38	2.0					

Notes:

¹ BGE data are for June 2003.



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